

Linde plc

US / Europe Satellite*

Recommended since 16.11.2020

10.06.2022



Country US / DE	Market capitalization (bn) USD 162.0	Perf. since reco. (%)
Sector Chemicals	Free float 99.6%	Linde plc 24.8
Factset LIN-US / LIN-DE	Closing price USD 318.69 / EUR 303.50	Sector US 18.1
ISIN IE00BZ12WP82	ESG Risk score* 8.2 Negligible risk	Sector EU 13.1

Profile

Linde plc (formed by the merger of Linde AG and Praxair) is the world leading industrial gas company, with a market share of 31%-32%. The Group generates 83% of its sales in Industrial Gases (oxygen, nitrogen, argon, hydrogen, carbon monoxide, helium, etc.) and 10% in Engineering (covering the life cycle of air separation unit projects). The distribution method is 40% Packaged (bottled gas for small customers), 28% Merchant (liquefied gas, variable volumes for medium-sized customers) and 24% On-site (tonnage - on-site production, pipeline delivery for large industrial customers).

Strengths/opportunities

- c. 65% of sales are resilient, generated on defensive end markets or via long-term "take-or-pay" contracts.
- Praxair merger offers potential for margin improvement.
- Hydrogen represents a long-term opportunity.

Weaknesses/threats

- Exposure to more cyclical markets (35% of sales).
- Economic uncertainty can affect sales growth and the flow of planned opportunities.
- High sensitivity to the economic climate in the Engineering business.

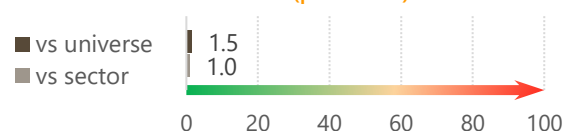
Investment case

- The excellent execution of the management since the merger has enabled the group to strengthen its positions in all its markets and significantly improve its margins (c. +650bp in three years). The next CEO (from 01/03/2022), Sanjiv Lamba, will ensure the continuity of the strategy in place. The outlook will remain strong and will be driven by new projects, good pricing power and productivity gains, which will lead to a further improvement in margins (particularly in Europe and Asia). The group should be able to generate an increase in sales and BPA of more than 5% and 10% on average per year over the next three years.
- The new project portfolio amounts to USD 3.5bn and is expected to deliver between 1% and 2% organic growth per year. Projects are mainly concentrated in Asia-Pacific (65%) and the Americas (28%), with an increase in the share of projects in Electronics.
- Hydrogen (7% of sales) offers a longer-term development opportunity. Currently produced from natural gas and used in the chemical and refining industries, hydrogen is expected to gradually move towards "decarbonised" production (by electrolysis of water) and could eventually contribute to the energy transition in the industrial and transport sectors.
- Share buybacks are part of the capital allocation strategy. The current program is USD 5bn and will expire in July 2023.

Valuation

The valuation, which has returned to attractive level, is justified by the resilience of the business across cycles, the visibility and the long-term outlook. The stock is trading at a 6% premium in PE to its peers (Air Liquide and Air Products), vs 10% historically.

ESG risk vs. universe & sector (percentile)*



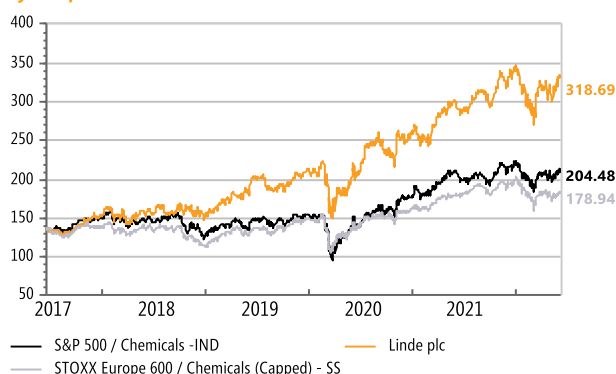
USD	12/2021	2022e	2023e
Sales revenue (mio)	30'793	33'726	35'592
Sales growth	13.0%	9.5%	5.5%
EBIT adjusted (mio)	7'087	7'818	8'491
% of sales	23.0%	23.2%	23.9%
Net income (mio)	5'579	6'045	6'543
Net income growth	27.6%	8.4%	8.2%
FCF/Sales	21.6%	17.8%	17.0%
Net debt/Ebitda	1.2x	1.2x	1.2x
Dividend yield	1.5%	1.5%	1.5%
PE	29.8x	26.6x	24.0x
P/BV	3.8x	4.0x	4.0x

Factset estimates

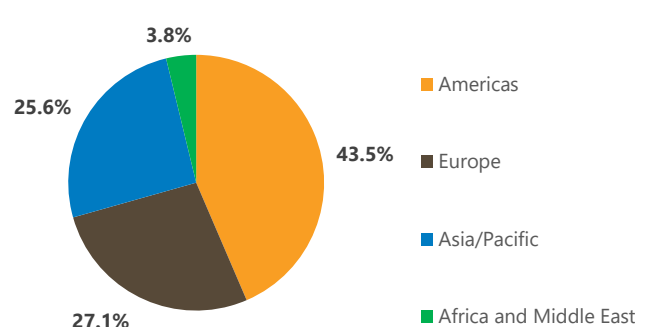
ESG - risks and key points

- Linde's exposure to ESG risks is low and reinforced by strong issue management in this area.
- The industrial gas sector is one of the most energy-intensive industries. Goal of lowering greenhouse gas emissions intensity by 35% by 2028.
- Linde offers solutions that can ultimately contribute to decarbonisation in the industrial and transport sectors: green hydrogen, carbon capture and sequestration units.

5-year performance vs sector



Sales breakdown - 12/2021



*: see overleaf

Source: Factset, Sustainalytics

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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